

2013 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title: AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 123459 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2014, requesting a study of investment options for the Actuarial Account, and clarifying the City Finance Director's authority to invest funds in the account.

Summary of the Legislation: This legislation continues to suspend contributions to the Actuarial Account in the Firefighters' Pension Fund for an additional two years through 2014. It also calls on the Department of Finance and Administrative Services, the City Budget Office, the Law Department and the Seattle Firefighters' Pension Board to work with Council Central Staff and deliver an options report on investments for the Actuarial Account by April 12, 2013.

Background: In 1994, the Mayor and City Council approved Ordinance 117216 to begin to accumulate funds in a separate Actuarial Account within the Firefighters' Pension Fund. The intention of this ordinance was to accumulate sufficient funds in the Actuarial Account by the end of 2018 or 2019 to fully fund all pension obligations owed after that date. The funding approach was clarified in 1997 through Ordinance 118814.

Actuarial studies prior to 2006 assumed the Actuarial Account could earn 7 percent interest. The account earned generally between 5 and 6 percent in the 1990s, but interest rates fell dramatically after 2001, and it was apparent by 2006 that this was no longer a reasonable assumption. Based on the advice of its then current actuary, Mercer Human Resources Consulting, and with the recommendation of the Seattle Firefighters' Pension Board, the City lowered its interest rate assumption from 7 percent to 5.125 percent and extended the funding period by five years through 2023 in Ordinance 122293, which was passed in 2006.

The City added money to the Actuarial Account each year between 1994 and 2008, and suspended payments for 2009 and 2010 through Ordinance 122859, and for 2011 and 2012 through Ordinance 123459. These actions were necessary because meeting the targets as last set forth in Ordinance 122293 would have put undue pressure on the General Fund during a period of local and national financial uncertainty. Several factors had resulted in the need for a significant General Fund contribution, including increases in firefighters' salaries that raised pension benefits beyond what was envisioned when the Actuarial Account was created, and even lower-than-anticipated investment returns from when the funding period was extended in 2006. Current actuarial assumptions are for an investment earnings rate of 4 percent annually, while the City's annual investment pool earnings in 2010, 2011 and 2012 have been just at 1 percent or lower.

In recognition of ongoing economic uncertainty for the City and the nation, continued low earnings on the City's investment pool, this proposed legislation suspends payments for an additional two years through 2014. It also requests that the Department of Finance and Administrative Services, the Law Department, the City Budget Office, and the Fire Pension Board work with Council Central Staff to deliver an investment plan by April 12, 2013 exploring ways to maximize returns in the Actuarial Account at appropriate levels of risk and with appropriate oversight.

Please check one of the following:

X This legislation has financial implications.

Summary of Changes to Revenue Generated Specifically from this Legislation:

	Revenue Source	2013 Proposed	2014 Endorsed
Total Fees and Charges Resulting From Passage of This Ordinance		NA	NA

(If new revenue is for a partial year, provide estimate for full year in the notes section below.)

Revenue Change Notes: NA

Anticipated Total Revenue from Entire Program, Including Changes Resulting from this Legislation:

Fund Name and Number	Revenue Source	Total 2013 Revenue	Total 2014 Revenue
60220	General Fund	0	0
TOTAL		0	0

Total Revenue Notes: There will be investment earnings on existing cash balances in the Actuarial Account of approximately \$100,000 or less in each year of the biennium.

Other Implications:

- a) Does the legislation have indirect financial implications, or long-term implications? Suspension of the excess contribution to the Actuarial Account will increase the Level Payment Amount required in subsequent years to reach the full funding goal by the prescribed target date of December 31, 2023.
- b) What is the financial cost of not implementing this legislation? This legislation suspends contributions to the Actuarial Account for 2013 and 2014. This is consistent with the 2013-2014 Proposed Budget. Without this legislation, significant increases in General Fund payments to the Actuarial Account would be needed. According to the latest actuarial report provided by Milliman, approximately \$4.1 million would need to be placed in the Actuarial Account in each year of the 2013-2014 biennium if this legislation is not approved. This amount would be in addition to the City's required contribution in

the 2013-2014 Proposed Budget to pay the current pension obligations in each year. Even with the suspension of new contributions, interest will continue to accrue in the account.

- c) Does this legislation affect any departments besides the originating department? No.
- d) What are the possible alternatives to the legislation that could achieve the same or similar objectives? None.
- e) Is the legislation subject to public hearing requirements? No.
- f) Other Issues: None.

Please list attachments to the fiscal note below: None